

# **City of Clear Lake, Iowa**

Financial and Compliance Report

Year Ended June 30, 2004

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# City of Clear Lake, Iowa

## Statement of Net Assets Proprietary Funds June 30, 2004

	Water	Sewer Rental	Storm Water	Nonmajor Solid Waste	Total
<b>Assets</b>					
Current assets:					
Cash	\$ 1,591	\$ 738	\$ 235	\$ 215	\$ 2,779
Investments	431,830	327,161	75,184	65,444	899,619
Receivables, net of allowances for uncollectible amounts:					
Accounts, consumers	72,086	32,111	6,479	33,317	143,993
Unbilled usage	18,803	7,606	1,776	8,966	37,151
Inventories	69,901	-	-	-	69,901
<b>Total current assets</b>	<b>594,211</b>	<b>367,616</b>	<b>83,674</b>	<b>107,942</b>	<b>1,153,443</b>
Noncurrent assets:					
Property and equipment:					
Land	65,026	-	263,490	-	328,516
Construction-in-progress	529	-	132,293	-	132,822
Buildings and improvements	1,132,527	71,000	25,000	-	1,228,527
Infrastructure	5,682,375	3,637,464	4,457,814	-	13,777,653
Machinery and equipment	655,492	150,570	-	-	806,062
Accumulated depreciation	(2,835,451)	(1,216,115)	(1,521,282)	-	(5,572,848)
<b>Total noncurrent assets</b>	<b>4,700,498</b>	<b>2,642,919</b>	<b>3,357,315</b>	<b>-</b>	<b>10,700,732</b>
<b>Total assets</b>	<b>\$ 5,294,709</b>	<b>\$ 3,010,535</b>	<b>\$ 3,440,989</b>	<b>\$ 107,942</b>	<b>\$ 11,854,175</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts and contracts payable	\$ 29,836	\$ 4,680	\$ 8,704	\$ 27,404	\$ 70,624
Accrued liabilities	18,508	4,024	3,873	1,334	27,739
Deposits	21,583	-	-	-	21,583
Compensated absences	16,491	3,146	-	580	20,217
Bonds payable	40,000	70,000	-	-	110,000
<b>Total current liabilities</b>	<b>126,418</b>	<b>81,850</b>	<b>12,577</b>	<b>29,318</b>	<b>250,163</b>
Noncurrent liabilities, bonds payable	140,000	315,000	-	-	455,000
<b>Total liabilities</b>	<b>266,418</b>	<b>396,850</b>	<b>12,577</b>	<b>29,318</b>	<b>705,163</b>
Net assets:					
Invested in capital assets, net of related debt	4,520,498	2,257,919	3,357,315	-	10,135,732
Unrestricted	507,793	355,766	71,097	78,624	1,013,280
<b>Total net assets</b>	<b>5,028,291</b>	<b>2,613,685</b>	<b>3,428,412</b>	<b>78,624</b>	<b>11,149,012</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,294,709</b>	<b>\$ 3,010,535</b>	<b>\$ 3,440,989</b>	<b>\$ 107,942</b>	<b>\$ 11,854,175</b>

See Notes to Basic Financial Statements.

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Clear Lake, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clear Lake, Iowa as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clear Lake, Iowa as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14, the City of Clear Lake, Iowa adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financials* and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*. In addition, the City had previously not accounted for governmental activities capital assets. Governmental capital assets were inventoried as of June 30, 2003 and are reflected as a restatement of governmental activities in the current year as described in Note 14.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2004, on our consideration of the City of Clear Lake, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and budgetary comparison information on pages 43 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Clear Lake, Iowa's basic financial statements. The combining nonmajor fund financial statements and other statements listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Nonprofit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 14, 2004

## **City of Clear Lake, Iowa**

### **Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004**

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It is an honor to present to you the financial picture of the City of Clear Lake, Iowa. We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Clear Lake, Iowa for the fiscal year ended June 30, 2004. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). However, in the year of implementation, certain omissions are allowed. Subsequent MD&As will include all required comparative information.

#### **Financial Highlights**

The assets of the City of Clear Lake exceeded its liabilities at the close of the most recent fiscal year by \$27,584,753 (net assets). Of this amount, \$5,168,240 may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$2,346,526.

As of the close of this current fiscal year, the City of Clear Lake's governmental funds reported combined ending fund balances of \$3,809,526, an increase of \$141,506 in comparison with the prior year. Approximately 97 percent of this total amount, \$3,709,312, is available for spending at the government's discretion (unreserved fund balance).

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,083,920 or 53 percent of total General Fund expenditures.

#### **Overview of the Financial Statements**

This Discussion and Analysis is intended to serve as an introduction to the City of Clear Lake, Iowa's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City of Clear Lake, Iowa's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Clear Lake, Iowa's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

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The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguished functions of the City of Clear Lake that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Clear Lake include general government, public safety, public works, health and social services, culture and recreation and community and economic development. The business-type activities of the City of Clear Lake include water, sewer rental, storm water and solid waste.

There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the City of Clear Lake, Iowa.

The government-wide financial statements can be found on pages 13 through 16 of this report.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Clear Lake, Iowa like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Clear Lake, Iowa maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Tax Increment Financing Fund, Road Use Tax Fund, Employee Benefits Fund and the Debt Service Fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

## **City of Clear Lake, Iowa**

### **Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004**

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The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget on pages 43 through 45.

The basic governmental fund financial statements can be found on pages 17 through 22 of this report.

Proprietary funds – The City of Clear Lake maintains only enterprise funds which are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Clear Lake maintains four enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, Sewer Rental Fund, and Storm Water Fund, which are considered to be major funds of the City and the one nonmajor fund (Solid Waste Fund).

The basic proprietary fund financial statements can be found on pages 23 through 26 of this report.

**Notes to the financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements and the required supplementary information.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total net assets have increased from a year ago. Table 1 reflects total net assets of \$27,584,753, which represents an increase of \$2,346,526 from 2003.

## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Of the City of Clear Lake's net assets, 81 percent reflects its investment in capital assets (e.g., land, construction-in-progress, buildings and improvements, infrastructure and machinery and equipment), less depreciation and any related debt used to acquire those assets that is still outstanding. The City of Clear Lake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported, net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 - City of Clear Lake's Net Assets

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004
Current assets	\$ 8,261,230	\$ 1,153,443	\$ 9,414,673
Capital assets	15,299,781	10,700,732	26,000,513
<b>Total assets</b>	<b>23,561,011</b>	<b>11,854,175</b>	<b>35,415,186</b>
Current liabilities	4,580,270	250,163	4,830,433
Noncurrent liabilities	2,545,000	455,000	3,000,000
<b>Total liabilities</b>	<b>7,125,270</b>	<b>705,163</b>	<b>7,830,433</b>
Net assets:			
Invested in capital assets, net of related debt	12,239,781	10,135,732	22,375,513
Restricted	41,000	-	41,000
Unrestricted	4,154,960	1,013,280	5,168,240
<b>Total net assets</b>	<b>\$ 16,435,741</b>	<b>\$ 11,149,012</b>	<b>\$ 27,584,753</b>

A restricted portion of the City's net assets (.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$5,168,240, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Clear Lake, Iowa is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The City's total net assets increased by \$2,346,526 during the current fiscal year. The governmental-type activities' net assets increased by \$1,561,052. The total business-type activities' net assets increased by \$785,474. This increase was mainly attributable to completion of new Public Works facility and several street projects and the self-supporting ability of all four of the business-type activities to cover the expenses of the program with revenues generated through user charges.

Table 2 highlights the City's revenues and expenses for the fiscal year ended June 30, 2004. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenue and General Revenue. Program revenue is defined as charges for sales and services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

**City of Clear Lake, Iowa**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004**

Table 2 - City of Clear Lake's Changes in Net Assets

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004
Revenues:			
Program revenues:			
Charges for services	\$ 670,564	\$ 1,504,126	\$ 2,174,690
Operating grants and contributions	731,530	-	731,530
Capital grants and contributions	576,293	326,280	902,573
General revenues:			
Property taxes	2,789,357	-	2,789,357
Other taxes	1,466,994	-	1,466,994
Intergovernmental	17,867	-	17,867
Investment earnings	50,660	28,495	79,155
Miscellaneous	-	2,088	2,088
<b>Total revenues</b>	<b>6,303,265</b>	<b>1,860,989</b>	<b>8,164,254</b>
Expenses:			
Public safety	1,411,957	-	1,411,957
Public works	1,040,968	-	1,040,968
Health and social services	14,411	-	14,411
Culture and recreation	658,881	-	658,881
Community and economic development	641,594	-	641,594
General government	637,908	-	637,908
Interest on long-term debt	150,918	-	150,918
Water	-	631,386	631,386
Sewer rental	-	186,202	186,202
Storm water	-	104,232	104,232
Solid waste	-	339,271	339,271
<b>Total expenses</b>	<b>4,556,637</b>	<b>1,261,091</b>	<b>5,817,728</b>
<b>Excess of revenues over expenses before transfers</b>	<b>1,746,628</b>	<b>599,898</b>	<b>2,346,526</b>
Transfers	(185,576)	185,576	-
<b>Increase in net assets</b>	<b>1,561,052</b>	<b>785,474</b>	<b>2,346,526</b>
Net assets, beginning	14,874,689	10,363,538	25,238,227
Net assets, ending	<u>\$ 16,435,741</u>	<u>\$ 11,149,012</u>	<u>\$ 27,584,753</u>

## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Table 3 below discloses cost of services for Governmental Activities. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Succinctly put, net costs are costs that must be covered by local taxes or other general revenue or transfers.

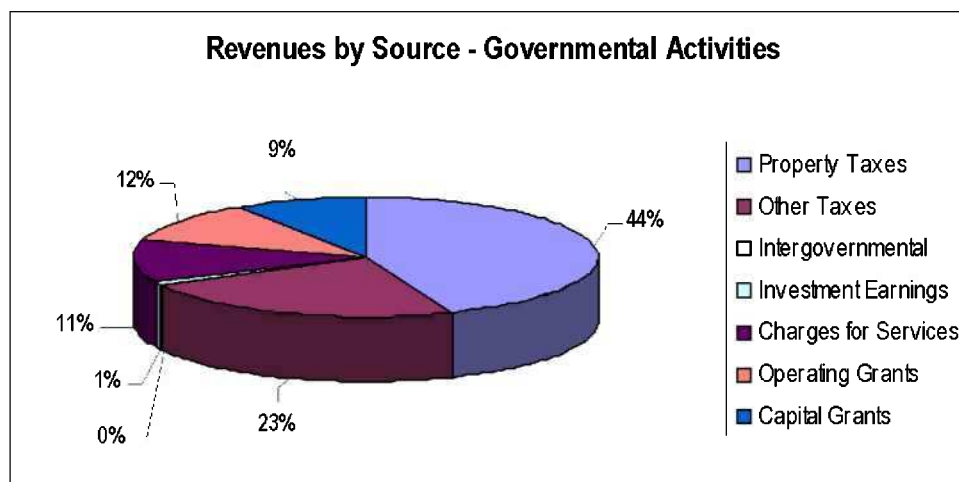
Table 3 - Governmental Activities

Programs	Total Cost of Services 2004	Net Cost of Services 2004
Public safety	\$ 1,411,957	\$ 1,350,734
Public works	1,040,968	(352,087)
Health and social services	14,411	9,577
Culture and recreation	658,881	388,723
Community and economic development	641,594	418,973
General government	637,908	611,412
Interest on long-term debt	150,918	150,918
Water	631,386	(218,580)
Sewer rental	186,202	(188,702)
Storm water	104,232	(125,404)
Solid waste	339,271	(36,629)
<b>Total</b>	<b>\$ 5,817,728</b>	<b>\$ 2,008,935</b>

Net cost of services is 35% of total cost of services in 2004. As expected, this reflects a continued reliance on taxes and other general revenue sources to fund the cost of services.

### Governmental Activities

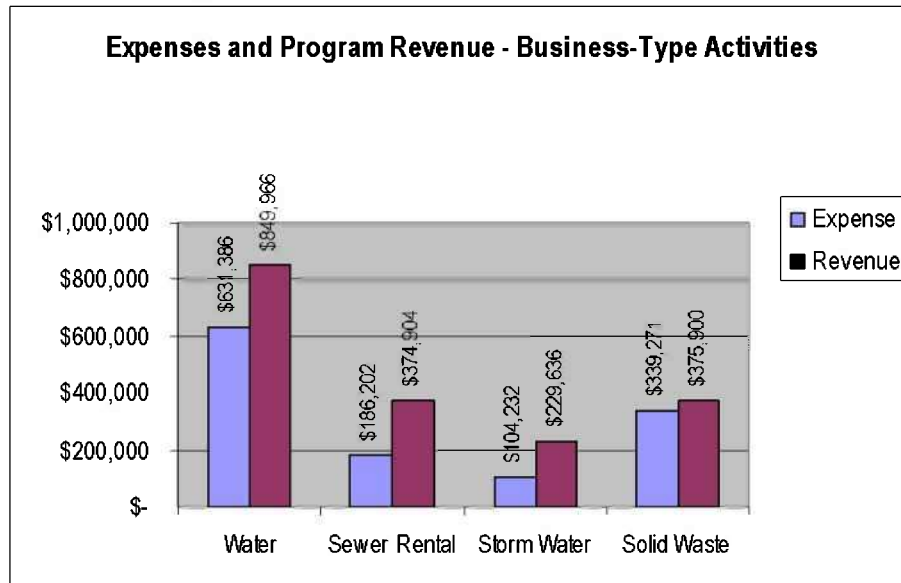
The graph below shows the percentage of the total governmental activities revenues allocated by each revenue type.



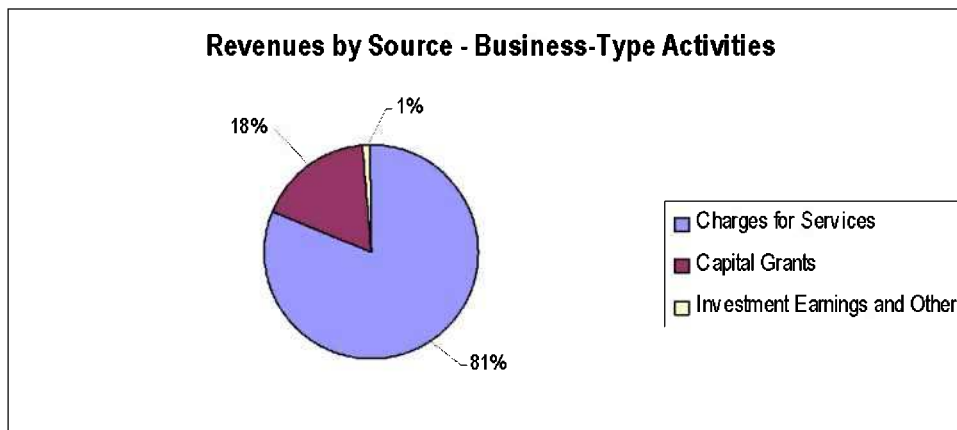
## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

Total business-type activities' revenue for the fiscal year was \$1,860,989. All but \$30,583 of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenditures and program revenues.



The graph below shows the breakdown of revenues by source for the business-type activities.



### Business-Type Activities

Business-type activities increased the City of Clear Lake's net assets by \$785,474 accounting for 33% of the growth in the City's net assets.

### Financial Analysis of the Government's Funds

As noted earlier, the City of Clear Lake, Iowa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

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**Governmental funds** – The focus of the City of Clear Lake, Iowa's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clear Lake, Iowa's governmental funds reported combined ending fund balances of \$3,809,526, an increase of \$141,506 in comparison with the prior year. Approximately 97% of this total amount, \$3,709,312, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,083,920 while total fund balance reached \$2,137,764. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund expenditures. Unreserved fund balance represents 53% of total General Fund expenditures, while total fund balance represents approximately 54% of that same amount.

The fund balance of the City's General Fund increased by \$372,641 during the current fiscal year. This was an unanticipated increase which was primarily due to delays in various construction projects that ultimately resulted in those projects either being initiated or completed after the end of the fiscal year.

The Tax Increment Financing (TIF) Fund accounts for revenues collected to be used for economic purposes. Fund balance increased \$69,204 from \$(29,508) in 2003 to \$39,696 in 2004 primarily due to repayment of a loan from economic development revolving loan fund.

The Road Use Fund is to maintain and improve City streets. Fund balance increased \$68,300 from \$604,470 in 2003 to \$672,770 in 2004 primarily due to actual expenditures under budget and revenues over budget.

The Employee Benefits Fund accounts for the employees group life and health insurance. Fund balance decreased by \$17,850 from \$266,814 in 2003 to \$248,964 in 2004.

The Debt Service Fund balance increased \$124,966 from \$9,899 in 2003 to \$134,865 in 2004 mainly attributable to a transfer from the General Fund for special assessment collections.

**Proprietary funds** – The City of Clear Lake, Iowa's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### Budgetary Highlights

Formal and legal budgetary control is based on nonmajor classes of disbursements known as functions, not by fund or fund type.

Differences between the original budget and the final amended budget can be summarized as follows:

- The total original revenue budget of \$7,334,923 was increased to \$7,621,994 (an increase of \$287,071) mainly due to increase in local option tax revenue.
- The total original expenditure budget of \$8,607,433 was increased to \$9,087,196 (an increase of \$479,763) mainly for timing of capital project completion.

## City of Clear Lake, Iowa

### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

- The total original budget for other financing sources of \$900,000 was decreased to \$500,000 (a decrease of \$400,000) mainly due to the City not needing to issue general obligation bonds prior to the end of the fiscal year which was the result of delays in completing or initiating various construction projects prior to June.

During the year, however, revenues were more than budgetary revenues and expenditures were less than budgetary expenditures.

### Capital Asset and Debt Administration

**Capital assets** - The City of Clear Lake's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$26,000,513 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-progress, buildings and improvements, infrastructure, and machinery and equipment. The total increase in capital assets for the current year was 6% (a 7% increase for governmental activities and a 5% increase for business-type activities).

Major capital asset events during the current fiscal year included street projects (East Main, North 24<sup>th</sup> and 25<sup>th</sup> Street overlay, 33<sup>rd</sup> Street West, South 3<sup>rd</sup> and 4<sup>th</sup> Street), Public Works facility, City Hall HVAC project, acquisition of wheel loader and equipment and two police cars.

Additional information on the City of Clear Lake's capital assets can be found in Note 3 of this report.

City of Clear Lake's Capital Assets

	Business-Type Activities		Governmental Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 328,516	\$ 328,516	\$ 2,351,294	\$ 2,351,294	\$ 2,679,810	\$ 2,679,810
Construction-in-progress	132,822	7,220	740,173	897,008	872,995	904,228
Buildings and improvements	1,228,527	1,228,527	4,681,406	3,889,412	5,909,933	5,117,939
Infrastructure	13,777,653	13,105,074	14,657,925	13,953,672	28,435,578	27,058,746
Machinery and equipment	806,062	789,986	2,768,655	2,589,859	3,574,717	3,379,845
Accumulated depreciation	(5,572,848)	(5,273,017)	(9,899,672)	(9,383,680)	(15,472,520)	(14,656,697)
<b>Total</b>	<b>\$ 10,700,732</b>	<b>\$ 10,186,306</b>	<b>\$ 15,299,781</b>	<b>\$ 14,297,565</b>	<b>\$ 26,000,513</b>	<b>\$ 24,483,871</b>

**Debt** - As of June 30, 2004, the City of Clear Lake, Iowa had general obligation bonds outstanding totaling \$3,560,000 and revenue bonds totaling \$65,000. In the current year, the City paid \$590,000 in principal and \$182,251 in interest on outstanding debt.

Table 5 - Outstanding Debt, June 30

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Maturity
General obligation bonds	\$ 2,995,000	\$ 3,415,000	\$ 565,000	\$ 675,000	2005-2013
Revenue bonds	65,000	125,000	-	-	2005
	<b>\$ 3,060,000</b>	<b>\$ 3,540,000</b>	<b>\$ 565,000</b>	<b>\$ 675,000</b>	

## **City of Clear Lake, Iowa**

### **Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004**

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Additional information about the City's long-term debt can be found in Note 4 to the financial statements.

#### **Economic Factors and Next Year's Budgets and Rates**

Real property assessed values have continued to rise with tax year 2004 at \$494,501,412.

The unemployment rate for the Cerro Gordo County is 3.9%. This is an increase from a rate of 3.6% a year ago. This compares favorably to the state's average unemployment rate of 4.3%.

#### **Requests for Information**

These financial statements and discussions are designed to provide our citizens, taxpayers, investors and creditors with a complete disclosure of the City's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional information, please write Linda Nelson, Finance Officer, City of Clear Lake, 15 North 6<sup>th</sup> Street, PO Box 185, Clear Lake, Iowa 50428.

City of Clear Lake, Iowa

Statement of Net Assets  
June 30, 2004

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash	\$ 23,638	\$ 2,779	\$ 26,417
Investments	3,659,035	899,619	4,558,654
Restricted assets, investments	39,000	-	39,000
Receivables, net of allowances for uncollectible amounts:			
Property taxes	3,266,739	-	3,266,739
Assessments	512,374	-	512,374
Accounts, consumers	5,098	143,993	149,091
Unbilled usage	-	37,151	37,151
Other	157,019	-	157,019
Due from other governments	545,352	-	545,352
Inventories	975	69,901	70,876
Land held for resale	52,000	-	52,000
<b>Total current assets</b>	<b>8,261,230</b>	<b>1,153,443</b>	<b>9,414,673</b>
Noncurrent assets:			
Capital assets:			
Nondepreciable:			
Land	2,351,294	328,516	2,679,810
Construction-in-progress	740,173	132,822	872,995
Depreciable:			
Buildings and improvements	4,681,406	1,228,527	5,909,933
Infrastructure	14,657,925	13,777,653	28,435,578
Machinery and equipment	2,768,655	806,062	3,574,717
Accumulated depreciation	(9,899,672)	(5,572,848)	(15,472,520)
<b>Total noncurrent assets</b>	<b>15,299,781</b>	<b>10,700,732</b>	<b>26,000,513</b>
<b>Total assets</b>	<b>\$ 23,561,011</b>	<b>\$ 11,854,175</b>	<b>\$ 35,415,186</b>

See Notes to Basic Financial Statements.

<b>Liabilities</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current:			
Accounts and contracts payable	\$ 478,288	\$ 70,624	\$ 548,912
Accrued liabilities	129,801	27,739	157,540
Deposits	-	21,583	21,583
Compensated absences	120,115	20,217	140,332
Deferred revenue	3,337,066	-	3,337,066
Current maturities of long-term debt	515,000	110,000	625,000
<b>Total current liabilities</b>	<b>4,580,270</b>	<b>250,163</b>	<b>4,830,433</b>
Noncurrent, general obligation loan notes, net of current maturities	2,545,000	455,000	3,000,000
<b>Total liabilities</b>	<b>7,125,270</b>	<b>705,163</b>	<b>7,830,433</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	12,239,781	10,135,732	22,375,513
Restricted for:			
Bond ordinance	39,000	-	39,000
Endowments	2,000	-	2,000
Unrestricted	4,154,960	1,013,280	5,168,240
<b>Total net assets</b>	<b>16,435,741</b>	<b>11,149,012</b>	<b>27,584,753</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,561,011</b>	<b>\$ 11,854,175</b>	<b>\$ 35,415,186</b>

City of Clear Lake, Iowa

Statement of Activities  
For the Year Ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
Public safety	\$ 1,411,957	\$ 53,926	\$ 7,297	\$ -
Public works	1,040,968	314,033	683,820	395,202
Health and social services	14,411	4,834	-	-
Culture and recreation	658,881	220,954	34,413	14,791
Community and economic development	641,594	50,321	6,000	166,300
General government	637,908	26,496	-	-
Interest on long-term debt	150,918	-	-	-
<b>Total governmental activities</b>	<b>4,556,637</b>	<b>670,564</b>	<b>731,530</b>	<b>576,293</b>
Business-type activities:				
Water	631,386	741,385	-	108,581
Sewer rental	186,202	312,017	-	62,887
Storm water	104,232	74,824	-	154,812
Solid waste	339,271	375,900	-	-
<b>Total business-type activities</b>	<b>1,261,091</b>	<b>1,504,126</b>	<b>-</b>	<b>326,280</b>
<b>Total primary government</b>	<b>\$ 5,817,728</b>	<b>\$ 2,174,690</b>	<b>\$ 731,530</b>	<b>\$ 902,573</b>
<b>General Revenues</b>				
Taxes:				
Property taxes				
Other taxes				
Intergovernmental				
Investment earnings				
Miscellaneous				
Transfers				
<b>Total general revenues and transfers</b>				
Changes in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,350,734)	\$ -	\$ (1,350,734)
352,087	-	352,087
(9,577)	-	(9,577)
(388,723)	-	(388,723)
(418,973)	-	(418,973)
(611,412)	-	(611,412)
(150,918)	-	(150,918)
(2,578,250)	-	(2,578,250)
-	218,580	218,580
-	188,702	188,702
-	125,404	125,404
-	36,629	36,629
-	569,315	569,315
(2,578,250)	569,315	(2,008,935)
2,789,357	-	2,789,357
1,466,994	-	1,466,994
17,867	-	17,867
50,660	28,495	79,155
-	2,088	2,088
(185,576)	185,576	-
4,139,302	216,159	4,355,461
1,561,052	785,474	2,346,526
14,874,689	10,363,538	25,238,227
\$ 16,435,741	\$ 11,149,012	\$ 27,584,753

City of Clear Lake, Iowa

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

<b>Assets</b>	General	Tax Increment Financing	Road Use Tax	Employee Benefits
Cash	\$ 13,103	\$ -	\$ 120	\$ 821
Investments	2,190,040	261	666,250	242,825
Restricted assets, investments	-	39,000	-	-
Receivables, net of allowances for uncollectible amounts:				
Property taxes	1,909,927	572,304	-	510,919
Special assessments	512,374	-	-	-
Accounts, consumers	5,098	-	-	-
Other	151,019	-	-	-
Due from other governments	191,796	-	54,079	-
Due from other funds	1,193	-	-	-
Inventories	975	-	-	-
Land held for resale	52,000	-	-	-
<b>Total assets</b>	<b>\$ 5,027,525</b>	<b>\$ 611,565</b>	<b>\$ 720,449</b>	<b>\$ 754,565</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts and contracts payable	\$ 278,206	\$ -	\$ 43,025	\$ -
Accrued liabilities	109,490	-	4,654	180
Due to other funds	-	-	-	-
Deferred revenue	2,502,065	571,869	-	505,421
<b>Total liabilities</b>	<b>2,889,761</b>	<b>571,869</b>	<b>47,679</b>	<b>505,601</b>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	869	-	-	-
Inventories	975	-	-	-
Land held for resale	52,000	-	-	-
Bond ordinances	-	39,000	-	-
Endowments	-	-	-	-
Unreserved, reported in:				
Special revenue funds	-	696	672,770	248,964
General Fund	2,083,920	-	-	-
Debt Service Fund	-	-	-	-
Capital Projects Fund	-	-	-	-
<b>Total fund balances</b>	<b>2,137,764</b>	<b>39,696</b>	<b>672,770</b>	<b>248,964</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,027,525</b>	<b>\$ 611,565</b>	<b>\$ 720,449</b>	<b>\$ 754,565</b>

See Notes to Basic Financial Statements.

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	Debt Service		Other Nonmajor Governmental		Total Governmental Funds
\$	-	\$	9,594	\$	23,638
	131,361		428,298		3,659,035
	-		-		39,000
	253,729		19,860		3,266,739
	-		-		512,374
	-		-		5,098
	-		6,000		157,019
	-		299,477		545,352
	-		-		1,193
	-		-		975
	-		-		52,000
\$	385,090	\$	763,229	\$	8,262,423

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\$	-	\$	157,057	\$	478,288
	-		4,652		118,976
	-		1,193		1,193
	250,225		24,860		3,854,440
	250,225		187,762		4,452,897

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	-		5,370		6,239
	-		-		975
	-		-		52,000
	-		-		39,000
	-		2,000		2,000
	-		407,943		1,330,373
	-		-		2,083,920
	134,865		-		134,865
	-		160,154		160,154
	134,865		575,467		3,809,526
\$	385,090	\$	763,229	\$	8,262,423

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City of Clear Lake, Iowa

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
June 30, 2004

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Total governmental fund balances		\$	3,809,526
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Land	\$	2,351,294	
Buildings and improvements		4,681,406	
Infrastructure		14,657,925	
Machinery and equipment		2,768,655	
Construction-in-progress		740,173	
Accumulated depreciation		(9,899,672)	15,299,781
<hr/>			
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds			517,374
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:			
Compensated absences, current		(120,115)	
Accrued interest payable		(10,825)	
General obligation loan notes, current		(450,000)	
General obligation loan notes, noncurrent		(2,545,000)	
Revenue bonds, current		(65,000)	(3,190,940)
<hr/>			
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>16,435,741</b>

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2004**

	General	Tax Increment Financing	Road Use Tax	Employee Benefits
Revenues:				
Property taxes	\$ 1,801,913	\$ 342,902	\$ -	\$ 366,719
Special assessments	351,697	-	-	-
Other taxes	1,457,468	-	-	5,828
Licenses and permits	73,152	-	-	-
Intergovernmental	264,320	-	683,820	-
Charges for services	79,738	-	-	-
Fines and forfeitures	40,728	-	-	-
Use of money and property	53,720	1,622	-	3,021
Miscellaneous	21,524	-	-	-
<b>Total revenues</b>	<b>4,144,260</b>	<b>344,524</b>	<b>683,820</b>	<b>375,568</b>
Expenditures:				
Current:				
Public safety	1,152,268	-	-	228,603
Public works	553,880	-	272,383	91,279
Health and social services	14,409	-	-	3
Culture and recreation	551,851	-	-	37,278
Community and economic development	334,771	3,151	-	5,449
General government	591,056	-	-	30,806
Capital projects	738,739	-	153,137	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>3,936,974</b>	<b>3,151</b>	<b>425,520</b>	<b>393,418</b>
<b>Excess of revenues over (under) expenditures</b>	<b>207,286</b>	<b>341,373</b>	<b>258,300</b>	<b>(17,850)</b>
Other Financing Sources (Uses):				
Transfers in	104,386	-	-	-
Transfers out	(685,283)	(272,169)	(190,000)	-
Proceeds from sale of capital assets	970	-	-	-
<b>Total other financing sources (uses)</b>	<b>(579,927)</b>	<b>(272,169)</b>	<b>(190,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(372,641)</b>	<b>69,204</b>	<b>68,300</b>	<b>(17,850)</b>
Fund balances, beginning of year, as restated	2,510,405	(29,508)	604,470	266,814
Fund balances, end of year	<b>\$ 2,137,764</b>	<b>\$ 39,696</b>	<b>\$ 672,770</b>	<b>\$ 248,964</b>

See Notes to Basic Financial Statements.

Debt Service		Other Nonmajor Governmental	Total Governmental Funds
\$	245,347	\$ 32,476	\$ 2,789,357
	-	-	351,697
	3,698	-	1,466,994
	-	-	73,152
	-	288,742	1,236,882
	-	-	79,738
	-	-	40,728
	1,752	12,291	72,406
	-	133,410	154,934
	250,797	466,919	6,265,888
	-	11,266	1,392,137
	-	-	917,542
	-	-	14,412
	-	4,961	594,090
	-	5,996	349,367
	-	-	621,862
	-	525,662	1,417,538
	480,000	-	480,000
	152,828	-	152,828
	632,828	547,885	5,939,776
	(382,031)	(80,966)	326,112
	506,997	495,725	1,107,108
	-	(145,232)	(1,292,684)
	-	-	970
	506,997	350,493	(184,606)
	124,966	269,527	141,506
	9,899	305,940	3,668,020
\$	134,865	\$ 575,467	\$ 3,809,526

City of Clear Lake, Iowa

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2004**

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Net change in fund balances - governmental funds \$ 141,506

Amounts reported for governmental activities in the statement of activities are  
different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense. The following is the amount by  
which capital outlays exceeded depreciation in the current year:

Capital outlay	1,454,960
Depreciation	(547,503)

The net effect of various miscellaneous transactions involving capital assets (i.e.,  
sales, trade-ins, donations and disposals) is to increase/decrease net assets:

Proceeds from sale of capital assets	(970)
Loss on sale of capital assets	(5,732)
Contributions by developers	101,461

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(64,084)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, change in compensated absences	(496)
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The issuance of long-term debt (e.g. bonds, loan, leases) provides current  
financial resources to governmental funds, while the repayment of the principal of  
long-term debt consumes the current financial resources of governmental funds.  
Neither transaction, however, has any effect on net assets. Also, governmental  
funds report the effect of issuance costs, premiums, discounts and similar items  
when debt is first issued, whereas these amounts are deferred and amortized in  
the statement of activities. In the statement of activities, interest is accrued  
on outstanding bonds, whereas in the governmental funds an interest expenditure  
is reported when due. The following is the detail of the net effect of these differences  
in the treatment of long-term debt and related items:

Repayment of bond principal	\$ 480,000	
Interest	1,910	481,910

<b>Change in net assets of governmental activities</b>	<b>\$ 1,561,052</b>
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See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

Statement of Net Assets  
Proprietary Funds  
June 30, 2004

	Water	Sewer Rental	Storm Water	Nonmajor Solid Waste	Total
<b>Assets</b>					
Current assets:					
Cash	\$ 1,591	\$ 738	\$ 235	\$ 215	\$ 2,779
Investments	431,830	327,161	75,184	65,444	899,619
Receivables, net of allowances for uncollectible amounts:					
Accounts, consumers	72,086	32,111	6,479	33,317	143,993
Unbilled usage	18,803	7,606	1,776	8,966	37,151
Inventories	69,901	-	-	-	69,901
<b>Total current assets</b>	<b>594,211</b>	<b>367,616</b>	<b>83,674</b>	<b>107,942</b>	<b>1,153,443</b>
Noncurrent assets:					
Property and equipment:					
Land	65,026	-	263,490	-	328,516
Construction-in-progress	529	-	132,293	-	132,822
Buildings and improvements	1,132,527	71,000	25,000	-	1,228,527
Infrastructure	5,682,375	3,637,464	4,457,814	-	13,777,653
Machinery and equipment	655,492	150,570	-	-	806,062
Accumulated depreciation	(2,835,451)	(1,216,115)	(1,521,282)	-	(5,572,848)
<b>Total noncurrent assets</b>	<b>4,700,498</b>	<b>2,642,919</b>	<b>3,357,315</b>	<b>-</b>	<b>10,700,732</b>
<b>Total assets</b>	<b>\$ 5,294,709</b>	<b>\$ 3,010,535</b>	<b>\$ 3,440,989</b>	<b>\$ 107,942</b>	<b>\$ 11,854,175</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts and contracts payable	\$ 29,836	\$ 4,680	\$ 8,704	\$ 27,404	\$ 70,624
Accrued liabilities	18,508	4,024	3,873	1,334	27,739
Deposits	21,583	-	-	-	21,583
Compensated absences	16,491	3,146	-	580	20,217
Bonds payable	40,000	70,000	-	-	110,000
<b>Total current liabilities</b>	<b>126,418</b>	<b>81,850</b>	<b>12,577</b>	<b>29,318</b>	<b>250,163</b>
Noncurrent liabilities, bonds payable	140,000	315,000	-	-	455,000
<b>Total liabilities</b>	<b>266,418</b>	<b>396,850</b>	<b>12,577</b>	<b>29,318</b>	<b>705,163</b>
Net assets:					
Invested in capital assets, net of related debt	4,520,498	2,257,919	3,357,315	-	10,135,732
Unrestricted	507,793	355,766	71,097	78,624	1,013,280
<b>Total net assets</b>	<b>5,028,291</b>	<b>2,613,685</b>	<b>3,428,412</b>	<b>78,624</b>	<b>11,149,012</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,294,709</b>	<b>\$ 3,010,535</b>	<b>\$ 3,440,989</b>	<b>\$ 107,942</b>	<b>\$ 11,854,175</b>

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2004**

	Water	Sewer Rental	Storm Water	Nonmajor Solid Waste	Total
Operating Revenues:					
Charges for services	\$ 741,385	\$ 312,017	\$ 74,824	\$ 375,900	\$ 1,504,126
Miscellaneous	1,933	155	-	-	2,088
<b>Total operating revenues</b>	<b>743,318</b>	<b>312,172</b>	<b>74,824</b>	<b>375,900</b>	<b>1,506,214</b>
Operating Expenses:					
Personal services	294,932	71,998	10,167	15,764	392,861
Contractual services	120,004	15,657	858	321,949	458,468
Commodities	47,236	19,636	5,165	1,558	73,595
Depreciation	155,765	59,858	88,042	-	303,665
<b>Total operating expenses</b>	<b>617,937</b>	<b>167,149</b>	<b>104,232</b>	<b>339,271</b>	<b>1,228,589</b>
<b>Operating income (loss)</b>	<b>125,381</b>	<b>145,023</b>	<b>(29,408)</b>	<b>36,629</b>	<b>277,625</b>
Nonoperating income (expense):					
Investment earnings	23,418	4,283	364	430	28,495
Interest expense	(9,983)	(19,053)	-	-	(29,036)
Loss on sale of capital assets	(3,466)	-	-	-	(3,466)
Capital contributions and grants	108,581	62,887	154,812	-	326,280
<b>Total nonoperating income (expense)</b>	<b>118,550</b>	<b>48,117</b>	<b>155,176</b>	<b>430</b>	<b>322,273</b>
<b>Income before transfers</b>	<b>243,931</b>	<b>193,140</b>	<b>125,768</b>	<b>37,059</b>	<b>599,898</b>
Transfers in	19,687	85,296	80,593	-	185,576
<b>Change in net assets</b>	<b>263,618</b>	<b>278,436</b>	<b>206,361</b>	<b>37,059</b>	<b>785,474</b>
Total net assets, beginning of year, as restated	4,764,673	2,335,249	3,222,051	41,565	10,363,538
Total net assets, end of year	<b>\$ 5,028,291</b>	<b>\$ 2,613,685</b>	<b>\$ 3,428,412</b>	<b>\$ 78,624</b>	<b>\$ 11,149,012</b>

See Notes to Basic Financial Statements.

City of Clear Lake, Iowa

Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer Rental	Storm Water	Nonmajor Solid Waste	
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 753,728	\$ 325,200	\$ 74,904	\$ 377,412	\$ 1,531,244
Receipts from other operating revenue	1,933	155	-	-	2,088
Payments to suppliers	(185,347)	(34,685)	6,455	(322,044)	(535,621)
Payments to employees	(293,602)	(71,489)	(10,167)	(15,671)	(390,929)
<b>Net cash provided by operating activities</b>	<b>276,712</b>	<b>219,181</b>	<b>71,192</b>	<b>39,697</b>	<b>606,782</b>
Cash Flows From Noncapital Financing Activities:					
Proceeds from other funds	-	3,419	-	-	3,419
Transfers from other funds	19,687	85,296	80,593	-	185,576
<b>Net cash provided by noncapital financing activities</b>	<b>19,687</b>	<b>88,715</b>	<b>80,593</b>	<b>-</b>	<b>188,995</b>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(281,918)	(307,942)	(231,697)	-	(821,557)
Payment on debt	(40,000)	(70,000)	-	-	(110,000)
Interest paid on debt	(10,829)	(20,660)	-	-	(31,489)
Capital contributions and grants	108,581	62,887	154,812	-	326,280
<b>Net cash (used in) capital and related financing activities</b>	<b>(224,166)</b>	<b>(335,715)</b>	<b>(76,885)</b>	<b>-</b>	<b>(636,766)</b>
Cash Flows From Investing Activities:					
Proceeds from sale and maturities of investments	3,002,573	2,255,519	177,566	230,272	5,665,930
Purchase of Investments	(3,098,450)	(2,232,700)	(252,750)	(271,700)	(5,855,600)
Interest received	23,418	4,283	364	430	28,495
<b>Net cash provided by (used in) investment activities</b>	<b>(72,459)</b>	<b>27,102</b>	<b>(74,820)</b>	<b>(40,998)</b>	<b>(161,175)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(226)</b>	<b>(717)</b>	<b>80</b>	<b>(1,301)</b>	<b>(2,164)</b>
Cash and cash equivalents, beginning of year	1,817	1,455	155	1,516	4,943
Cash and cash equivalents, end of year	<u>\$ 1,591</u>	<u>\$ 738</u>	<u>\$ 235</u>	<u>\$ 215</u>	<u>\$ 2,779</u>

(Continued)

City of Clear Lake, Iowa

Statement of Cash Flows (Continued)  
 Proprietary Funds  
 For the Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds
	Water	Sewer Rental	Storm Water	Nonmajor Solid Waste	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 125,381	\$ 145,023	\$ (29,408)	\$ 36,629	\$ 277,625
Adjustments to reconcile operating income (loss) to net cash provided by operating activities, depreciation	155,765	59,858	88,042	-	303,665
Change in assets and liabilities:					
Receivables	12,343	13,183	80	1,512	27,118
Inventory	(16,562)	-	-	-	(16,562)
Deposits	(12,232)	-	-	-	(12,232)
Accounts and contract payable and accrued liabilities	10,687	608	12,478	1,463	25,236
Compensated absences	1,330	509	-	93	1,932
<b>Net cash provided by operating activities</b>	<b>\$ 276,712</b>	<b>\$ 219,181</b>	<b>\$ 71,192</b>	<b>\$ 39,697</b>	<b>\$ 606,782</b>

See Notes to Basic Financial Statements.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies**

**Nature of operations:**

The City of Clear Lake, Iowa (City) is located in Cerro Gordo County, Iowa and was incorporated in 1871. The form of City government is Mayor-Council, utilizing a professional City Administrator. The City of Clear Lake provides a wide variety of public services, including public safety, roads, sanitation, health, recreation, planning, zoning and general administrative services.

**Reporting entity:**

Accounting principles generally accepted in the United States of America require the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City of Clear Lake, Iowa is a municipal corporation governed by a council, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. The City has the statutory authority to adopt its own budget, to levy taxes and to issue bonded debt without the approval of another government. It has the right to sue and be sued and has the right to buy, sell, lease or mortgage property in its own name. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Clear Lake, Iowa and Clear Lake Library Foundation as its component unit. Although the Clear Lake Library Foundation (Foundation) is incorporated and is legally separate from the City, it is included in the City's reporting entity as the Library Special Revenue Fund because of the significance of its operational and financial relationship with the City. The Foundation is reported in these financial statements as if it were a part of the City because its sole purpose is to help finance improvements made to the City library and to purchase property on its behalf. The Foundation also operates under a June 30 year-end. No separate external financial statements have been issued for the Foundation.

**Basis of presentation:**

Government-wide and fund financial statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. There are no indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. The focus of fund financial statements is on major funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund accounting: The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The City has the following fund types:

***Governmental Fund Types:*** Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance". The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the City's major governmental funds:

**General Fund:** The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Special Revenue Funds:**

***Tax Increment Financing Fund:*** To account for the revenue collected to be used for economic development purposes.

***Road Use Tax Fund:*** To maintain and improve the City's streets.

***Employee Benefits Fund:*** To account for the employee group life and health insurance program.

**Debt Service Fund:** The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal and interest on the City's general obligation and tax increment financing long-term debt.

The other governmental funds of the City are considered nonmajor and are as follows:

***Capital Projects Fund:*** The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities.

***Fareway Tax Increment Financing Fund:*** To account for the revenue collected to be used for economic development purposes.

***Willow Creek Tax Increment Financing Fund:*** To account for the revenue collected to be used for economic development purposes.

***Firefighter Benefit Fund:*** To receive and administer funds that may be appropriated to recruit, retain and reward members of the volunteer fire department.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

**Library Fund:** To account for donations which were restricted for the use of the library.

**Lindstrom Flower Fund:** To account for donations which are to be used for the purpose of planting flowers on City property.

**Law Enforcement Fund:** To receive and administer funds that may be confiscated or forfeited from drug operations or arrests.

**Federal Law Enforcement Fund:** To receive and administer funds that may be confiscated or forfeited from drug operations or arrests.

**Economic Development Revolving Loan Fund:** To provide financial assistance loans to new and expanding businesses located in the City of Clear Lake, Iowa. Initial funds supplied by the state of Iowa.

**DARE Fund:** To receive and administer funds for the DARE Program.

**Permanent Funds:** are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs of the City.

**Library Trust** – endowment from Jones, Hines and Dorchester Trust.

**Proprietary Fund Types** - Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector (business-type activities). The measurement focus is upon income determination, financial position and cash flows.

**Enterprise Funds** - are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The following are the City's major enterprise funds:

**Water Fund:** To account for the operations of providing a safe and adequate water supply for fire protection, domestic and industrial use.

**Sewer Rental Fund:** To account for the operations of the City's sewer utility including the revenue from usage fees and operating costs associated with it.

**Storm Water Fund:** To account for the operations of the City's storm water utility including the revenue from fees and the operating costs associated with it.

The other enterprise fund of the City is considered nonmajor and is as follows:

**Solid Waste Fund:** To account for the operations of the City's recycling program, yard waste service and garbage removal services.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

**Measurement focus and basis of accounting:**

The City adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* and related statements, during the fiscal year ended June 30, 2004. The adoption of these Statements is meant to present the information in a format more closely resembling that of the private sector and to provide the user with more managerial analysis regarding the financial results and the City's financial outlook.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized at the time an enforceable legal claim is established. This is deemed to occur when the budget is certified. The current tax levy was certified on March 15, 2004 based on the 2003 assessed valuations. These taxes are due in two installments, on September 1, 2004 and the following March 1, 2005 with a 1.5% per month penalty for delinquent payment. Since the 2004 tax levy is budgeted and levied for the fiscal year 2005, the revenue from this tax levy has been deferred. Revenue has been recognized for those taxes receivable which represent the prior year's delinquent taxes and which are expected to be collected within 60 days after year-end.

Special assessments are recognized at the time of the levy with the revenue deferred until the amounts become available in the fund financial statements. Revenue is recognized in the government-wide financial statements. Interest on special assessments is recognized when collected.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

Substantially, all other shared revenue is recognized when received by the tax collecting authority.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Summary of significant accounting policies:**

The significant accounting policies followed by the City include the following:

**Cash and investments:** the City maintains a cash and investment pool to maximize investment opportunities. Income from investments purchased with pooled cash is allocated to individual funds based on a pro rata basis. Each fund's portion of total cash and investments is reported as such within this report. Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

**Statement of cash flows:** for purposes of the statement of cash flows for proprietary fund type funds, the City considers the pooled cash and investments to be cash equivalents as these pooled amounts have the same characteristics of demand deposits. Cash equivalents also include restricted cash and investments.

**Accounts receivable:** the City bills for its utility services on a monthly basis and accrues the unbilled portion of these services at year-end.

**Inventories:** consists of consumable supplies and are valued at cost using the first-in, first-out (FIFO) method. The costs of Governmental Fund Type inventories are recorded as expenditures when consumed rather than when purchased. Inventories are recognized only in those funds in which they are material to the extent of affecting operations.

**Capital assets:** including land, buildings and improvements, infrastructure, machinery and equipment and construction-in-progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater.

Assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized in the current fiscal year.

Notes to Basic Financial Statements

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**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

Depreciation has been provided using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives for each capital asset type are as follows:

	Years
Buildings and improvements	25 to 70
Infrastructure	20 to 40
Machinery and equipment	5 to 20

The City's collection of works of art, library books, and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

**Deferred revenues:** in the governmental funds, deferred revenues represent amounts due, which are measurable, but not available, or grants and similar items received, but for which the City has not met all eligibility requirements imposed by the provider. In the statement of net assets, deferred revenues represent the deferral of property tax receivables which are levied for a future period and unearned grants.

**Interfund transactions:** transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Noncurrent portions of long-term inter-fund loan receivables are reported as advances within the governmental funds and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Notes to Basic Financial Statements

**Note 1. Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)**

**Fund equity:** reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. Designations of fund balance represents tentative management plans that are subject to change.

**Net assets:** represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All amounts not meeting these definitions are reported as unrestricted.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Budgetary and legal appropriation and amendment policies:** The City Council annually adopts a budget on or before March 15 of each year, which becomes effective July 1 and constitutes the City's appropriation for each program and purpose specified therein until amended. City budgets may be amended for specified purposes and budget amendments must be prepared and adopted in the same manner as the original budgets. The legal level of control (the level on which expenditures may not legally exceed appropriations) is the program level. Appropriations, as adopted and amended, lapse at the end of the fiscal year.

The City adopts its annual program budget for all funds on a modified accrual basis. While spending control is exercised at the program level, management control is exercised on a major object of expenditure basis at departmental levels.

As allowed by GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, the City presents budgetary comparison schedules as required supplementary information based on the program structure of nine functional areas as required by state statute for its legally adopted budget.

**Note 2. Cash and Investments**

State statutes authorize the City to invest in obligations of the United States or any of its agencies, certificates of deposit, interest earning money market and savings accounts in depositories, perfected repurchase agreements, prime eligible bankers' acceptances and commercial paper which meet the requirements of the Code of Iowa. State statutes also require all of the City's deposits be protected by insurance, surety bond or collateral. The fair value of the collateral pledged to the State Treasurer must equal at least 110% of the City's quarterly average uninsured public funds for the previous year.

As of June 30, 2004, the carrying value and bank balance of deposits for the City and its blended component unit was as follows:

	Carrying Value	Bank Balance
City	\$ 4,469,613	\$ 4,472,586
Blended component unit	111,442	111,442
	<u>\$ 4,581,055</u>	<u>\$ 4,584,028</u>

Notes to Basic Financial Statements

**Note 2. Cash and Investments (Continued)**

The bank balance is entirely insured or covered by the State Sinking Fund. This Fund provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Component Unit's investments are categorized below to give an indication of the level of risk assumed by the entity. Category 1 includes securities that are insured, registered or held by the Component Unit or its agent in the Component Unit's name. Category 2 includes uninsured and unregistered securities which are held by the counterparty's trust department or its agent in the Component Unit's name. Category 3 includes uninsured and unregistered securities which are held by the counterparty in its trust or safekeeping department or by its agent, but not in the Component Unit's name.

	Carrying Amount			Fair Value
	Category			
	1	2	3	
Corporate bonds	\$ 18,786	\$ -	\$ -	\$ 18,786
Uncategorized, money market mutual fund				24,230
				<u>\$ 43,016</u>

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during 2004 was \$806. The amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end was \$1,953.

The City's investments during the year did not vary substantially from those at year-end in amounts or level of risk.

Amounts reported as investments of the City as of June 30, 2004 consist of the following balances:

	Governmental Activities	Business-Type Activities	Total
Certificates of deposit	\$ 3,021,200	\$ 759,000	\$ 3,780,200
Savings	633,819	140,619	774,438
Corporate bonds	18,786	-	18,786
Money market mutual fund	24,230	-	24,230
	<u>\$ 3,698,035</u>	<u>\$ 899,619</u>	<u>\$ 4,597,654</u>

# City of Clear Lake, Iowa

## Notes to Basic Financial Statements

### Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2004:

	Beginning Balance June 30, 2003, as Restated	Additions	Deletions	Ending Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,351,294	\$ -	\$ -	\$ 2,351,294
Construction-in-progress	897,008	-	156,835	740,173
<b>Total capital assets, not being depreciated</b>	<b>3,248,302</b>	<b>-</b>	<b>156,835</b>	<b>3,091,467</b>
Capital assets, being depreciated:				
Buildings and improvements	3,889,412	791,994	-	4,681,406
Infrastructure	13,953,672	707,503	3,250	14,657,925
Machinery and equipment	2,589,859	213,759	34,963	2,768,655
<b>Total capital assets, being depreciated</b>	<b>20,432,943</b>	<b>1,713,256</b>	<b>38,213</b>	<b>22,107,986</b>
Less accumulated depreciation for:				
Buildings and improvements	694,085	97,013	-	791,098
Infrastructure	6,879,916	288,199	3,087	7,165,028
Machinery and equipment	1,809,679	162,291	28,424	1,943,546
<b>Total accumulated depreciation</b>	<b>9,383,680</b>	<b>547,503</b>	<b>31,511</b>	<b>9,899,672</b>
<b>Total capital assets, being depreciated, net</b>	<b>11,049,263</b>	<b>1,165,753</b>	<b>6,702</b>	<b>12,208,314</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 14,297,565</b>	<b>\$ 1,165,753</b>	<b>\$ 163,537</b>	<b>\$ 15,299,781</b>

## Notes to Basic Financial Statements

## Note 3. Capital Assets (Continued)

	Beginning Balance June 30, 2003, as Restated	Additions	Deletions	Ending Balance June 30, 2004
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 328,516	\$ -	\$ -	\$ 328,516
Construction-in-progress	7,220	125,602	-	132,822
<b>Total capital assets, not being depreciated</b>	<b>335,736</b>	<b>125,602</b>	<b>-</b>	<b>461,338</b>
Capital assets, being depreciated:				
Buildings and improvements	1,228,527	-	-	1,228,527
Infrastructure	13,105,074	679,879	7,300	13,777,653
Machinery and equipment	789,986	16,076	-	806,062
<b>Total capital assets, being depreciated</b>	<b>15,123,587</b>	<b>695,955</b>	<b>7,300</b>	<b>15,812,242</b>
Less accumulated depreciation for:				
Buildings and improvements	677,299	29,939	-	707,238
Infrastructure	4,343,719	255,697	3,834	4,595,582
Machinery and equipment	251,999	18,029	-	270,028
<b>Total accumulated depreciation</b>	<b>5,273,017</b>	<b>303,665</b>	<b>3,834</b>	<b>5,572,848</b>
<b>Total capital assets, being depreciated, net</b>	<b>9,850,570</b>	<b>392,290</b>	<b>3,466</b>	<b>10,239,394</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 10,186,306</b>	<b>\$ 517,892</b>	<b>\$ 3,466</b>	<b>\$ 10,700,732</b>

Depreciation expense was charged to the functions of the government as follows:

<b>Governmental Activities</b>	
General government	\$ 11,400
Culture and recreation	96,247
Public safety	59,369
Public works	380,487
	<u>\$ 547,503</u>
<b>Business-Type Activities</b>	
Water	\$ 155,765
Sanitary sewer	59,858
Storm sewer	88,042
	<u>\$ 303,665</u>

# City of Clear Lake, Iowa

## Notes to Basic Financial Statements

### Note 4. Bonded and Other Debt

The following is a summary of changes in bonded and other long-term debt for the year ended June 30, 2004:

	June 30, 2003	Increases and Issues	Decreases and Retirements	June 30, 2004	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 3,415,000	\$ -	\$ 420,000	\$ 2,995,000	\$ 450,000
Revenue bonds	125,000	-	60,000	65,000	65,000
Compensated absences	119,619	120,115	119,619	120,115	120,115
<b>Total governmental activities</b>	<b>3,659,619</b>	<b>120,115</b>	<b>599,619</b>	<b>3,180,115</b>	<b>635,115</b>
Business-type activities:					
General obligation bonds	675,000	-	110,000	565,000	110,000
Compensated absences	18,285	20,217	18,285	20,217	20,217
<b>Total business-type activities</b>	<b>693,285</b>	<b>20,217</b>	<b>128,285</b>	<b>585,217</b>	<b>130,217</b>
<b>Total long-term debt</b>	<b>\$ 4,352,904</b>	<b>\$ 140,332</b>	<b>\$ 727,904</b>	<b>\$ 3,765,332</b>	<b>\$ 765,332</b>

#### General obligation loan notes:

Nine issues of general obligation loan notes totaling \$3,560,000 are outstanding as of June 30, 2004. These notes bear interest with rates ranging from 1.95% to 5.60% and mature in varying annual amounts ranging from \$40,000 to \$195,000 through June 1, 2013.

#### Revenue bonds:

The urban renewal tax increment revenue bonds totaling \$65,000 were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the tax increment financing fund. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limitation of the City. These notes bear interest at 9.25% and mature June 1, 2005 with a final payment of \$65,000.

The bonds stipulate that each June 1, beginning June 1, 1995, \$13,000 be transferred into a restricted reserve account until \$39,000 is in the restricted reserve account. Money in the reserve account shall be used solely for the purpose of paying principal or interest at maturity if insufficient money is available in the Tax Increment Financing Fund. The balance of the reserve account as of June 30, 2004 is \$39,000.

#### Compensated absences:

Compensated absences attributable to governmental activities are generally liquidated by the General Fund.

City of Clear Lake, Iowa

Notes to Basic Financial Statements

**Note 4. Bonded and Other Debt (Continued)**

**Summary of principal and interest maturities:**

Annual debt service requirements to service all outstanding indebtedness as of June 30, 2004 are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 625,000	\$ 154,654	\$ 779,654
2006	525,000	127,888	652,888
2007	545,000	108,241	653,241
2008	565,000	86,860	651,860
2009	410,000	63,805	473,805
2010 - 2014	955,000	111,650	1,066,650
	<u>\$ 3,625,000</u>	<u>\$ 653,098</u>	<u>\$ 4,278,098</u>

**Legal debt margin:**

As of June 30, 2004, the outstanding general obligation debt of the City did not exceed its legal debt margin computed as follows:

Total assessed valuation		<u>\$ 503,831,037</u>
Debt limit, 5% of total actual valuation		\$ 25,191,552
Debt applicable to debt limit:		
General obligation bonds	\$ 3,560,000	
Revenue bonds	65,000	3,625,000
<b>Legal debt margin</b>		<u>\$ 21,566,552</u>

**Note 5. Interfund Receivables and Payables**

Individual interfund receivables and payables balances as of June 30, 2004 were:

	<u>Total</u>	
	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental activities:		
Major governmental funds, general	\$ 1,193	\$ -
Nonmajor governmental funds,		
Special Revenue Fund, Lindstrom Flower	-	1,193
<b>Total</b>	<u>\$ 1,193</u>	<u>\$ 1,193</u>

## City of Clear Lake, Iowa

### Notes to Basic Financial Statements

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#### Note 6. Interfund Transfers

The following is a schedule of transfers as included in the basic financial statements of the City:

	Transfers In	Transfers Out
Governmental activities:		
Major governmental funds:		
General	\$ 104,386	\$ 685,283
Debt service	506,997	-
Tax incremental funds	-	272,169
Road use tax	-	190,000
Nonmajor governmental funds	495,725	145,232
<b>Total governmental activities</b>	<b>1,107,108</b>	<b>1,292,684</b>
Business-type activities:		
Major enterprise funds:		
Water	19,687	-
Sewer rental	85,296	-
Storm water	80,593	-
<b>Total business-type activities</b>	<b>185,576</b>	<b>-</b>
<b>Total</b>	<b>\$ 1,292,684</b>	<b>\$ 1,292,684</b>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

#### Note 7. Pension and Retirement Systems

##### Iowa Public Retirement System:

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police and fire members in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$122,776, \$118,142 and \$112,720, respectively, equal to the required contributions for each year.

Notes to Basic Financial Statements

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**Note 7. Retirement System (Continued)**

**Employee Benefits Fund**

The City also has a single-employer defined benefit plan which pays benefits to one retired employee. There are no other participants in the plan and the plan is closed to new entrants. This plan is accounted for in the employee benefits special revenue fund.

Currently, the Plan is funded through a property tax levy and the City expects to continue to levy the tax as long as the benefit is required to be paid. The Plan has not had an actuarial computation performed in the current year; therefore, information relating to funding progress is not available. Information as to the annual fair value of plan assets, property tax receipts and benefits paid is as follows:

	Fair Value of Net Assets	Property Tax Receipts	Benefits Paid
2004	\$ 97,442	\$ 31,000	\$ 26,145
2003	97,842	28,000	25,009
2002	98,903	-	23,574

**Note 8. Vacation and Sick Leave**

City employees accumulate vacation and sick leave hours for subsequent use. For proprietary fund types and the government-wide statements, vacations are recorded as expenses and liabilities of the appropriate fund and activity in the fiscal year earned. For governmental fund types, the amount of accumulated unpaid vacation, which is payable from available resources, is recorded as a liability of the respective fund if they have matured; for example, as a result of employee retirements and resignations. The accumulated sick leave hours do not vest and, therefore, are not recognized as a liability of the City until used or paid. The City's contingent liability as of June 30, 2004 for the unvested employee sick leave hours totals approximately \$493,218.

**Note 9. Iowa Department of Economic Development Revolving Loan Fund**

Under contract agreement with Iowa Department of Economic Development, the City, as the loan manager of a \$150,000 economic loan made by the State to Cole Sewell Corporation, has agreed to establish a revolving loan fund on behalf of the Iowa Department of Economic Development. Under the agreement, all principal and interest collections on the loan, as received by the City from Cole Sewell Corporation, are to be used to fund this revolving loan fund. The balance of the loan was paid in fiscal year 1998. A plan to reuse the proceeds in the revolving loan fund has been submitted to and approved by the Iowa Department of Economic Development.

**Note 10. Litigation**

The City is a defendant in several claims and lawsuits. In the opinion of the City Attorney and management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**Note 11. Risk Management**

The City is exposed to various risks of loss related to torts; theft; damage to the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Notes to Basic Financial Statements

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**Note 12. Commitments**

The City was involved in various construction projects throughout the year. Remaining contractual amounts on these projects total \$372,643 as of June 30, 2004.

**Note 13. New Pronouncements**

As of June 30, 2004, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 40, *Deposit and Investment Risk Disclosures*, issued March 2003, will be effective for the City beginning with its year ending June 30, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the City beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the City beginning with its year ending June 30, 2009. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the City beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

The City's management has not yet determined the effect these Statements will have on the City's financial statements.

**Note 14. Restatement**

The City adopted Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

Notes to Basic Financial Statements

**Note 14. Restatement (Continued)**

As a result, beginning fund balance, as previously reported, changed as follows:

	Balance June 30, 2003	Restatement	Balance July 1, 2004
General Fund	\$ 2,432,085	\$ 78,320	\$ 2,510,405
Special revenue	839,998	283,967	1,123,965
Debt service	9,899	-	9,899
Capital projects	21,751	-	21,751
Enterprise	7,311,915	3,051,623	10,363,538
Permanent	-	2,000	2,000
Fiduciary	285,967	(285,967)	-
	<u>\$ 10,901,615</u>	<u>\$ 3,129,943</u>	<u>\$ 14,031,558</u>

In prior years, the City had not maintained governmental activities capital assets and had received a qualified opinion. During the year ended June 30, 2004, the City hired an outside consultant to perform an inventory of capital assets as of June 30, 2003. Governmental activities capital assets of \$14,297,565 (net of accumulated depreciation) were inventoried as of June 30, 2003. In addition, those capital assets related to the enterprise funds were re-inventoried resulting in a restatement of previously reported net assets of \$3,729,075 due to the identification of additional capital assets related to the enterprise funds. There are also restatement amounts related to compensated absences in the General Fund of \$26,320, land held for resale identified of \$52,000 and the abatement of general obligation bonds and accrued interest of \$677,452 to the enterprise funds.

City of Clear Lake, Iowa

Budgetary Comparison Schedule

Budget and Actual - All Governmental Funds and Proprietary Funds

Required Supplementary Information

For the Year Ended June 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
Revenues:			
Property taxes	\$ 2,789,357	\$ -	\$ 2,789,357
Other taxes	1,466,994	-	1,466,994
Special assessments	351,697	-	351,697
Licenses and permits	73,152	-	73,152
Intergovernmental	1,236,882	-	1,236,882
Charges for services	79,738	1,504,126	1,583,864
Fines and forfeitures	40,728	-	40,728
Use of money and property	72,406	28,495	100,901
Miscellaneous	154,934	2,088	157,022
<b>Total revenues</b>	<b>6,265,888</b>	<b>1,534,709</b>	<b>7,800,597</b>
Expenditures/expenses:			
Public safety	1,392,137	-	1,392,137
Public works	917,542	-	917,542
Health and social services	14,412	-	14,412
Culture and recreation	594,090	-	594,090
Community and economic development	349,367	-	349,367
General government	621,862	-	621,862
Debt service	632,828	29,036	661,864
Capital outlay	1,417,538	-	1,417,538
Business-type	-	1,228,589	1,228,589
<b>Total expenditures/expenses</b>	<b>5,939,776</b>	<b>1,257,625</b>	<b>7,197,401</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>326,112</b>	<b>277,084</b>	<b>603,196</b>
Other Financing Sources (Uses), net	(184,606)	508,390	323,784
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses</b>	<b>141,506</b>	<b>785,474</b>	<b>926,980</b>
Balances, beginning of year, as restated	3,668,020	10,363,538	14,031,558
Balances, end of year	\$ 3,809,526	\$ 11,149,012	\$ 14,958,538

See Note to Required Supplementary Information.

Budgeted Amounts		Final to Actual
Original	Final	Variance - Positive (Negative)
\$ 2,761,923	\$ 2,786,067	\$ 3,290
1,165,431	1,357,408	109,586
360,000	315,000	36,697
40,555	60,080	13,072
1,283,400	1,363,400	(126,518)
1,492,000	1,545,950	37,914
26,500	27,500	13,228
104,975	102,863	(1,962)
100,139	63,726	93,296
7,334,923	7,621,994	178,603
1,608,283	1,440,633	48,496
1,044,810	1,009,968	92,426
28,701	17,689	3,277
705,489	681,544	87,454
586,206	394,631	45,264
581,279	639,448	17,586
795,037	772,255	110,391
1,734,580	2,362,060	944,522
1,523,048	1,768,968	540,379
8,607,433	9,087,196	1,889,795
(1,272,510)	(1,465,202)	2,068,398
900,000	500,000	(176,216)
(372,510)	(965,202)	1,892,182
9,177,976	10,899,617	3,131,941
\$ 8,805,466	\$ 9,934,415	\$ 5,024,123

## City of Clear Lake, Iowa

### **Note to Required Supplementary Information – Budgetary Reporting For the Year Ended June 30, 2004**

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In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The budget basis of accounting is in accordance with accounting principles generally accepted in the United States of America. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital outlay and business-type. During the year, a budget amendment increased budgeted expenditures by \$479,763. The budget amendment was primarily due to changes in capital projects, reclassification of revenues and expenditures, increase in revenues due to revised estimates of local option tax and increases in expenditures for liability insurance premiums and a feasibility study.

City of Clear Lake, Iowa

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004

	Special Revenue			
	Capital Projects	Willow Creek Tax Increment Financing	Firefighter Benefit	Library
<b>Assets</b>				
Cash	\$ 152	\$ -	\$ -	\$ 9,442
Investments	31,175	-	56,361	143,016
Receivables, net of allowances for uncollectible amounts:				
Property taxes	-	19,860	-	-
Other	-	-	-	-
Due from other governments	299,477	-	-	-
<b>Total assets</b>	<b>\$ 330,804</b>	<b>\$ 19,860</b>	<b>\$ 56,361</b>	<b>\$ 152,458</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts and contracts payable	\$ 155,628	\$ -	\$ -	\$ -
Accrued liabilities	4,652	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	5,000	19,860	-	-
<b>Total liabilities</b>	<b>165,280</b>	<b>19,860</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Reserved for encumbrances	5,370	-	-	-
Reserved for endowments	-	-	-	-
Unreserved, reported in:				
Special revenue funds	-	-	56,361	152,458
Capital projects fund	160,154	-	-	-
	<b>165,524</b>	<b>-</b>	<b>56,361</b>	<b>152,458</b>
<b>Total liabilities and fund balances</b>	<b>\$ 330,804</b>	<b>\$ 19,860</b>	<b>\$ 56,361</b>	<b>\$ 152,458</b>

Special Revenue							
Lindstrom Flower	Law Enforcement	Economic Development Revolving Loan	Permanent Library	Total			
\$ -	\$ -	\$ -	\$ -	\$ 9,594			
-	46	195,700	2,000	428,298			
-	-	-	-	19,860			
6,000	-	-	-	6,000			
-	-	-	-	299,477			
\$ 6,000	\$ 46	\$ 195,700	\$ 2,000	\$ 763,229			
\$ 1,429	\$ -	\$ -	\$ -	\$ 157,057			
-	-	-	-	4,652			
1,193	-	-	-	1,193			
-	-	-	-	24,860			
2,622	-	-	-	187,762			
-	-	-	-	5,370			
-	-	-	2,000	2,000			
3,378	46	195,700	-	407,943			
-	-	-	-	160,154			
3,378	46	195,700	2,000	575,467			
\$ 6,000	\$ 46	\$ 195,700	\$ 2,000	\$ 763,229			

City of Clear Lake, Iowa

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

	Capital Projects	Special Revenue		
		Fareway Tax Increment Financing	Firefighter Benefit	Library
Revenues:				
Property taxes	\$ -	\$ 32,476	\$ -	\$ -
Intergovernmental	288,742	-	-	-
Use of money and property	114	88	841	700
Miscellaneous	-	-	-	127,185
<b>Total revenues</b>	<b>288,856</b>	<b>32,564</b>	<b>841</b>	<b>127,885</b>
Expenditures:				
Current:				
Public safety	-	-	5,251	-
Culture and recreation	-	-	-	4,961
Community and economic development	-	-	-	-
Capital projects	525,662	-	-	-
<b>Total expenditures</b>	<b>525,662</b>	<b>-</b>	<b>5,251</b>	<b>4,961</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(236,806)</b>	<b>32,564</b>	<b>(4,410)</b>	<b>122,924</b>
Other Financing Sources (Uses):				
Transfers in	492,525	-	2,500	-
Transfers out	(111,946)	(30,786)	-	(2,500)
<b>Total other financing sources (uses)</b>	<b>380,579</b>	<b>(30,786)</b>	<b>2,500</b>	<b>(2,500)</b>
<b>Net change in fund balances</b>	<b>143,773</b>	<b>1,778</b>	<b>(1,910)</b>	<b>120,424</b>
Fund balances, beginning of year, as restated	21,751	(1,778)	58,271	32,034
Fund balances, end of year	\$ 165,524	\$ -	\$ 56,361	\$ 152,458

Special Revenue							
Lindstrom Flower	Law Enforcement	Federal Law Enforcement	Economic Development Revolving Loan	DARE	Permanent Library	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	32,476
-	-	-	-	-	-	-	288,742
2	4	9	10,525	8	-	-	12,291
6,000	-	-	-	225	-	-	133,410
6,002	4	9	10,525	233	-	-	466,919
-	926	2,732	-	2,357	-	-	11,266
-	-	-	-	-	-	-	4,961
5,996	-	-	-	-	-	-	5,996
-	-	-	-	-	-	-	525,662
5,996	926	2,732	-	2,357	-	-	547,885
6	(922)	(2,723)	10,525	(2,124)	-	-	(80,966)
700	-	-	-	-	-	-	495,725
-	-	-	-	-	-	-	(145,232)
700	-	-	-	-	-	-	350,493
706	(922)	(2,723)	10,525	(2,124)	-	-	269,527
2,672	968	2,723	185,175	2,124	2,000	-	305,940
\$ 3,378	\$ 46	\$ -	\$ 195,700	\$ -	\$ 2,000	\$	575,467

**City of Clear Lake, Iowa**

**Government-Wide Expenses By Function  
Last Ten Fiscal Years (1)  
(Unaudited)**

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Fiscal Year	Public Safety	Public Works	Health and Social Services	Culture and Recreation	Community and Economic Development	General Government
2004	\$ 1,411,957	\$ 1,040,968	\$ 14,411	\$ 658,881	\$ 641,594	\$ 637,908

(1) Fiscal year 2004 was the first year of government-wide statements.

Source: City records.

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Interest on Long-Term Debt		Water		Sewer Rental		Storm Water		Solid Waste		Total
\$	150,918	\$	631,386	\$	186,202	\$	104,232	\$	339,271	\$ 5,817,728

**City of Clear Lake, Iowa**

**Government-Wide Revenues  
Last Ten Fiscal Years (1)  
(Unaudited)**

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Fiscal Year	Charges for Sales and Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes
2004	\$ 2,174,690	\$ 731,530	\$ 902,573	\$ 4,256,351

(1) Fiscal year 2004 was the first year of government-wide statements.

Source: City records

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Intergovernmental		Investment Earnings		Miscellaneous		Total
\$	17,867	\$	79,155	\$	2,088	\$ 8,164,254

City of Clear Lake, Iowa

Expenditures and Expenses, Other Than Depreciation, By Program, All Funds

Fiscal Year	Public Safety	Public Works	Health and Social Services	Culture and Recreation	Community and Economic Development
2002 - 03 *	\$ 1,302,038	\$ 827,812	\$ 18,004	\$ 575,603	\$ 427,583
<b>2003 - 04</b>	<b>1,392,137</b>	<b>917,542</b>	<b>14,412</b>	<b>594,090</b>	<b>349,367</b>

	General Government	Capital Projects	Debt Service	Enterprise Funds	Total
2002 - 03 *	\$ 586,441	\$ 2,129,756	\$ 517,208	\$ 962,626	\$ 7,347,071
<b>2003 - 04</b>	<b>621,862</b>	<b>1,417,538</b>	<b>632,828</b>	<b>924,924</b>	<b>6,864,700</b>

\* The state changed the programs required to be reported from four to nine for the year ended June 30, 2003.

City of Clear Lake, Iowa

Revenue by Source, All Funds

Fiscal Year	Property Taxes	Licenses and Permits	Intergovern- mental	Charges for Services	Fines and Forfeitures
1994-95	\$ 2,150,567	\$ 101,526	\$ 1,275,086	\$ 944,311	\$ 30,327
1995-96	1,971,160	97,462	1,262,948	1,023,193	32,712
1996-97	2,045,480	98,989	963,458	1,037,639	44,144
1997-98	2,180,829	103,828	821,711	1,027,475	38,487
1998-99	2,131,979	102,049	812,065	1,000,629	40,285
1999-00	2,266,121	107,083	1,117,502	1,018,009	36,462
2000-01	2,238,112	119,751	967,376	1,022,087	30,900
2001-02	2,347,408	63,723	1,475,741	1,147,929	29,831
2002-03	2,620,791	71,877	999,014	1,398,599	35,639
<b>2003-04</b>	<b>2,789,357</b>	<b>73,152</b>	<b>1,236,882</b>	<b>1,583,864</b>	<b>40,728</b>

Fiscal Year	Use of Money and Property	Special Assessments	Miscel- laneous and Other Taxes	Total
1994-95	\$ 250,084	\$ 131,840	\$ 1,228,997	\$ 6,112,738
1995-96	198,788	89,174	1,084,420	5,759,857
1996-97	317,463	56,078	1,289,555	5,852,806
1997-98	409,230	53,107	1,310,662	5,945,329
1998-99	311,354	86,973	1,418,406	5,903,740
1999-00	558,435	198,490	1,603,635	6,905,737
2000-01	424,186	137,850	1,451,948	6,392,210
2001-02	125,219	105,631	1,624,734	6,920,216
2002-03	111,044	733,831	1,556,060	7,526,855
<b>2003-04</b>	<b>100,901</b>	<b>351,697</b>	<b>1,624,016</b>	<b>7,800,597</b>

City of Clear Lake, Iowa

Assessed Valuation of Property

Levy Year	Collection Year	Assessed Valuation*
		Real Property
1995	1995/96	\$ 255,872,244
1996	1996/97	278,620,570
1997	1997/98	288,396,450
1998	1998/99	343,771,951
1999	1999/00	362,279,093
2000	2000/01	384,172,487
2001	2001/02	419,099,346
2002	2002/03	449,312,733
2003	2003/04	470,777,591
<b>2004</b>	<b>2004/05</b>	<b>494,501,415</b>

\* Does not include utility property assessed values.

City of Clear Lake, Iowa

Property Tax Rates Per \$1,000 of Taxable Valuation

Levy Year	Collection Year	School District	City of Clear Lake	Cerro Gordo County
1995	1995/96	\$ 12.79274	\$ 9.48608	\$ 5.61192
1996	1996/97	11.98784	9.48608	5.67330
1997	1997/98	13.93380	9.48702	5.48671
1998	1998/99	13.83670	8.32973	5.47804
1999	1999/00	13.21620	8.10782	5.43260
2000	2000/01	13.33615	8.10782	5.74088
2001	2001/02	12.85907	7.82587	5.28549
2002	2002/03	12.94453	8.23096	5.21866
2003	2003/04	12.82648	8.41204	5.10724
<b>2004</b>	<b>2004/05</b>	<b>13.45400</b>	<b>8.97902</b>	<b>5.80297</b>

North Iowa Area Community College		Sanitation	Total	Ratio of City of Clear Lake to Total
\$	0.49509	\$ 1.73431	\$ 30.12014	31.5%
	0.48565	1.73431	29.36718	32.3
	0.50619	1.80746	31.22118	30.4
	0.50619	1.81821	29.96887	27.8
	0.53536	1.82390	29.11588	27.8
	0.53329	1.80734	29.52548	27.5
	0.52425	1.80814	28.30282	27.7
	0.59547	1.75731	28.74693	28.6
	0.61307	1.69731	28.65614	29.4
	<b>0.62599</b>	<b>1.67071</b>	<b>30.53269</b>	<b>29.4</b>

City of Clear Lake, Iowa

Ratio of General Obligation Bonded Debt to Assessed Value and  
General Obligation Bonded Debt Per Capita

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Fiscal Year	Population	Assessed *	General Obligation Bonded Debt	Ratio of General Obligation Bonded Debt To Assessed Value	General Obligation Bonded Debt Per Capita
1994-95	8,183	\$ 268,304,669	\$ 2,731,081	1.02%	\$ 333.75
1995-96	8,183	289,607,879	1,850,000	0.64	226.08
1996-97	8,183	302,373,354	2,345,000	0.78	286.57
1997-98	8,183	358,371,679	2,345,000	0.65	286.57
1998-99	8,183	378,581,007	2,715,000	0.72	331.79
1999-00	8,183	393,556,978	2,370,000	0.60	289.62
2000-01	8,161	428,164,692	2,015,000	0.47	246.91
2001-02	8,161	463,593,800	3,950,000	0.85	484.01
2002-03	8,161	479,861,942	4,215,000	0.88	516.48
<b>2003-04</b>	8,161	<b>503,831,037</b>	<b>3,560,000</b>	<b>0.71</b>	<b>436.22</b>

\* Includes utility property assessed values.

City of Clear Lake, Iowa

Computation of Direct and Overlapping Debt  
June 30, 2004

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	Net General Obligation Debt Outstanding	Percent Applicable to the City of Clear Lake	City of Clear Lake Share of Debt	Net General Obligation Debt Per Capita
Name of governmental unit:				
Direct, City of Clear Lake	\$ 3,425,135	100.00%	\$ 3,425,135	\$ 419.70
Indirect:				
Clear Lake School District	5,185,000	74.57	3,866,455	473.77
North Iowa Area Community College	6,955,000	6.54	454,857	55.74
Sanitary District	3,513,000	77.77	2,732,060	334.77
	<u>15,653,000</u>		<u>7,053,372</u>	<u>864.28</u>
	<u>\$ 19,078,135</u>		<u>\$ 10,478,507</u>	<u>\$ 1,283.98</u>

## City of Clear Lake, Iowa

### Miscellaneous Statistical Data June 30, 2004

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Location	Junction of Interstate 35 and U.S. Hwy 18, nine miles west of Mason City, 130 miles south of Minneapolis, 120 miles north of Des Moines
Year of incorporation	1871
Form of government	Mayor-Council
Housing starts, 2003-2004	16 single family 2 multi family
Fire protection:	
Number of stations	1
Number of employees:	
Part-time	1
Volunteers	24
Police protection:	
Number of stations	1
Number of employees	19
Recreation, number of parks:	
City	12
State	2
Churches	14
Employees as of June 30, 2004	44 full-time, 21 part-time, 22 seasonal
Population:	
1940	3,764
1950	4,977
1960	6,158
1970	6,430
1980	7,458
1990	8,183
2000	8,161
Major commercial employers (approximate):	
TeamQuest	90
Pella Storm Door Division	325
Opportunity Village	500
Serta Mattress Company	90
Oakwood Care Center	90
Kingland Systems	60

City of Clear Lake, Iowa

**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2004**

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>U.S Department of Housing and Urban Development</b>			
Passed through Iowa Department of Economic Development, Community Development Block Grant Program	02-ED-015	14.228	\$ 166,300
<b>U.S. Department of Transportation</b>			
Passed through Iowa Department of Transportation, Highway Planning and Construction	STP-U-1372(609)- -70-17 STP-E-1372(610)- -70-17	20.205	382,650
<b>Total federal expenditures</b>			<u>\$ 548,950</u>

See Notes to Schedule of Expenditures of Federal Awards.

**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2004**

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**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Clear Lake, Iowa for the year ended June 30, 2004. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included in the Schedule. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**Note 2. Significant Accounting Policies**

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

**Note 3. Pass-Through Funding**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Community Development Block Grant	14.228	\$ 166,300

City of Clear Lake, Iowa

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2004

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Initial Year Reported	Summary	Status
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Reportable conditions:

1993	The City does not have an adequate segregation of duties over billing, collecting, depositing, and recording of miscellaneous and utility receipts. The data processing function is not segregated from the authorization of transactions.	Unresolved, as a similar finding was reported in current year. See 04-II-A.
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Statutory reporting:

2003	The City had deficit fund balances in two special revenue funds.	Resolved, there were no deficit fund balances in the current year.
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**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council  
City of Clear Lake, Iowa  
Clear Lake, Iowa

We have audited the financial statements of the City of Clear Lake, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Clear Lake, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Clear Lake, Iowa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-II-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clear Lake, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 14, 2004

**Independent Auditor's Report on Compliance With Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

To the Honorable Mayor and  
Members of the City Council  
City of Clear Lake, Iowa  
Clear Lake, Iowa

**Compliance**

We have audited the compliance of the City of Clear Lake, Iowa with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Clear Lake, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Clear Lake, Iowa's management. Our responsibility is to express an opinion on the City of Clear Lake, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Chapter 11 of the Code of Iowa; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Clear Lake, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Clear Lake, Iowa's compliance with those requirements.

In our opinion, the City of Clear Lake, Iowa complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the City of Clear Lake, Iowa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Clear Lake, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 14, 2004

City of Clear Lake, Iowa

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

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I. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with  
Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

(Continued)

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2004**

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**II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance With Generally Accepted Government Auditing Standards.**

A. Reportable conditions in internal control.

**04-II-A**

Finding: A good internal control system contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The individual responsible for billing is also responsible for collecting money, making deposits and recording transactions in the general ledger.

The data processing function is not segregated from the authorization of transactions.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend segregating the duties of collecting from reconciling and recording of the cash receipts to prevent mismanagement of receipts.

Response and Corrective Action Planned: The City is aware of the limited segregation of duties and will continue to look for opportunities to realign or reassign duties when possible.

B. Compliance findings.

None.

**III. Findings and Questioned Costs for Federal Awards:**

A. Reportable Conditions in Administering Federal Awards

None

B. Instances of Noncompliance

None

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2004**

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**IV. Other Findings Related to Required Statutory Reporting**

- 04-IV-A Official Depositories - A resolution naming official depositories has been adopted by City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- 04-IV-B Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- 04-IV-C Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 04-IV-D Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- 04-IV-E Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name	Transaction Description	Amount
Yohn Enterprises	Construction, per bid	\$ 73,613
K. Asbe	Police Department Ammunition	2,234

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Yohn Enterprises does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- 04-IV-F Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 04-IV-G Council Minutes - We noted no transactions requiring council approval which had not been approved in the Council minutes.
- 04-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- 04-IV-I Revenue Notes - Currently, the City does not have revenue notes.
- 04-IV-J Payment of General Obligation Bonds - The City appears to be in compliance with Chapter 384.4 of the Code of Iowa.
- 04-IV-K Economic Development - We noted no instance of noncompliance with Chapter 15A of the Code of Iowa.
- 04-IV-L Notice of Public Hearing for Public Improvements - We noted no instance of noncompliance with Chapters 384.102 and 362.3 of the Code of Iowa.
- 04-IV-M Sales Tax - We noted no instance of noncompliance with Sections 701-26.71 and 701-26.72 of the Iowa Department of Revenue and Finance Administrative Rules and Regulations.
- 04-IV-N Financial Condition - There were no funds with a deficit fund balance/net assets as of June 30, 2004.

**City of Clear Lake, Iowa**

**Corrective Action Plan  
Year Ended June 30, 2004**

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Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
04-II-A	The City did not have an adequate segregation of duties over receipts and data processing functions.	See response and corrective action plan at 04-II-A.	Ongoing	Scott Flory